

ORIGINAL



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MEMORANDUM

30

TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

Date: January 31, 2007

RE: STAFF REPORT FOR SPANISH TRAIL WATER COMPANY AND SAGUARO WATER COMPANY - JOINT APPLICATION TO TRANSFER A PORTION OF SAGUARO WATER COMPANY'S CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE TO SPANISH TRAIL WATER COMPANY (DOCKET NOS. W-01816A-06-0177 AND W-01790A-06-0177)

Attached is the Staff Report for Spanish Trail Water Company and Saguaro Water Company's joint application to transfer a portion of Saguaro Water Company's Certificate of Convenience and Necessity for water service to Spanish Trail Water Company. Staff is recommending approval with conditions.

EGJ:BNC:tdp

Originator: Blessing Chukwu

Arizona Corporation Commission
DOCKETED
JAN 31 2007

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Service List for: Spanish Trail Water Company and Saguaro Water Company
Docket Nos. W-01816A-06-0177 and W-01790A-06-0177

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

SPANISH TRAIL WATER COMPANY AND SAGUARO WATER COMPANY

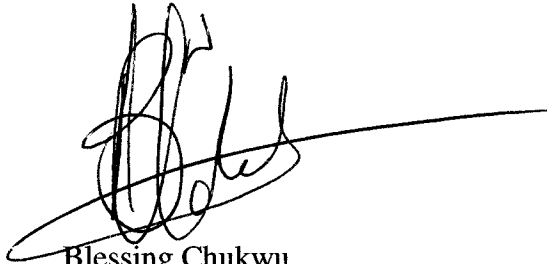
DOCKET NOS. W-01816A-06-0177 AND W-01790A-06-0177

**JOINT APPLICATION TO TRANSFER A PORTION
OF SAGUARO WATER COMPANY'S CERTIFICATE OF
CONVENIENCE AND NECESSITY TO SPANISH TRAIL WATER COMPANY**

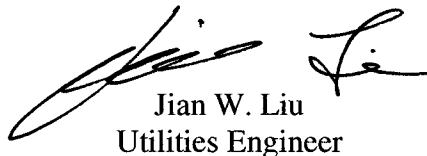
JANUARY 31, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Spanish Trail Water Company and Saguaro Water Company (Docket Nos. W-01816A-06-0177 and W-01790A-06-0177) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Jian Liu was responsible for the engineering and technical analysis.

A handwritten signature in black ink, featuring a large, stylized 'B' and 'C' followed by a long horizontal line extending to the right.

Blessing Chukwu
Executive Consultant

A handwritten signature in black ink, consisting of a stylized 'J' and 'L' followed by a horizontal line.

Jian W. Liu
Utilities Engineer

EXECUTIVE SUMMARY
SPANISH TRAIL WATER COMPANY AND SAGUARO WATER COMPANY JOINT
APPLICATION TO TRANSFER A PORTION OF SAGUARO WATER COMPANY'S
CERTIFICATE OF CONVENIENCE AND NECESSITY TO SPANISH TRAIL WATER
COMPANY
DOCKET NOS. W-01816A-06-0177 AND W-01790A-06-0177

On March 17, 2006, Spanish Trail Water Company ("STWC") and Saguaro Water Company ("SWC" or "Company") (collectively, "Applicants") filed a joint application with the Arizona Corporation Commission ("ACC" or "Commission") to transfer a portion of SWC's Certificate of Convenience and Necessity ("CC&N") to STWC. On October 12, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code.

SWC and STWC are Arizona Corporations, in good standing with the Corporations Division, and engaged in providing water utility service to approximately 700 customers and 387 customers, respectively, in portions of Pima County, Arizona. SWC and STWC's certificated areas are adjacent. SWC and STWC have common ownership interests. By this joint application, the Applicants are seeking Commission authority to transfer approximately 69 acres of SWC's certificated area to STWC. The owner of the property is developing a 5,000 acre master planned community, 98% of which falls within the CC&N of STWC, and has consented to this partial transfer of SWC CC&N. The transfer would result in the entire development being served by one water provider, STWC, rather than by two water providers. The requested transfer area is undeveloped and is located in Section 27 of Township 15 South, Range 16 East. No customers will be impacted by this transfer.

Staff recommends the Commission approve the joint application to transfer a portion of SWC's CC&N for water service, within portions of Pima County, Arizona, to STWC, subject to compliance with the following conditions:

1. To require STWC to charge its authorized rates and charges in the transfer area.
2. To require STWC to file with Docket Control, as a compliance item in this docket, a copy of Pima Cruz County franchise agreement for the transfer area within 365 days of the decision in this matter.
3. To require SWC and STWC to file with Docket Control, by December 31, 2007, a report explaining why SWC and STWC's CC&N areas should not be consolidated into one.

Staff further recommends that the Commission's Decision granting the transfer of a portion of SWC's CC&N to STWC be considered null and void, after due process, should STWC fail to meet Condition Nos. 2 and 3 listed above within the time specified.

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Introduction

On March 17, 2006, Spanish Trail Water Company ("STWC") and Saguaro Water Company ("SWC" or "Company") (collectively, "Applicants") filed a joint application with the Arizona Corporation Commission ("ACC" or "Commission") to transfer a portion of SWC's Certificate of Convenience and Necessity ("CC&N") to STWC.

On April 12, 2006, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-402(C). A copy of the Insufficiency Letter was sent to the Company via U.S mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On May 26, 2006, and September 14, 2006, the Company provided additional documentation to support its relief requested.

On October 12, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

Background

Saguaro Water Company and Spanish Trail Water Company are Arizona Corporations, in good standing with the Corporations Division, and engaged in providing water utility service to approximately 700 customers and 387 customers, respectively, in portions of Pima County, Arizona. SWC is located approximately 21 miles southeast of Tucson while STWC is located approximately 17 miles southeast of Tucson, in Pima County. The Commission approved the original CC&Ns for SWC and STWC in Decision No. 55291 (November 14, 1986) and Decision No. 56815 (February 21, 1989), respectively.

SWC and STWC have common ownership interests. SWC is owned by Mr. Donald Diamond (50%) and WE7, Inc. (50%). The President of WE7, Inc. is Mr. William Estes. STWC is owned by Mr. Diamond (90%) and Mr. Estes (10%).

The Water System

According to SWC's 2005 Annual Report, SWC's water system consists of three wells which produce a total of 930 gallons per minute ("GPM"), and 500,000 gallon storage capacity which served approximately 700 customers as of December 2005. Staff concludes that the existing water system has adequate infrastructure to serve the existing customer base.

STWC operates three separate water systems: the Barn System, the York System and the Academy Village System. These three systems are approximately one mile apart from one another. Below is the plant description for each of the three water systems:

- The Barn System has two well sites and a distribution system covering approximately one-half square mile. The Rocking K Well [D(15-16)17aba] was constructed with a 12-inch casing to a depth of 325 feet. This well is equipped with a 40 horsepower (“Hp”) submersible pump having a flow rate of 400 GPM water is registered by a 4-inch meter. The water is pumped to a 2,000 gallon pressure tank before entering the distribution system. The Barn Well [D(15-16)17ddd] was constructed in 1994 and has a 12-inch casing to a depth of 400 feet. This well is equipped with a 20-Hp Turbine pump, a 6-inch meter and produces 360 GPM. Water is stored in a 10,000 gallon storage tank and moves through two 25-Hp booster pumps and into a 3,000 gallon pressure tank before entering the distribution system. The Barn system serves 249 connections.
- The York System consists of one well and a distribution system covering approximately one-sixteenth of a square mile. The York Well [D(15-16)15dab] was constructed with an 8-inch casing to a depth of 233 feet and is equipped with a 5-Hp submersible pump which produces 37 GPM. The York Well is equipped with a 2-inch meter. The well pumps into a 1,000 gallon pressure tank before serving 17 connections.
- The Academy Village System was constructed in 2001 as a consecutive water system to Saguaro Water Company that consists of 13,335 feet of water main and 27 fire hydrants to serve 264 available lots. This system currently serves 121 connections. In 2005 the STWC’s Academy Village System purchased 6,036,600 gallons from Saguaro Water Company.

According to the Applicants’ September 14, 2006 Response to Letter of Insufficiency, “[t]he acreage to be transferred (approximately 69 acres) is currently planned for medium density residential use with approximately 250 units at build-out. The anticipated start date for construction on this parcel will be in 2011. Thus, no new connections or demand will be created for STWC over the next 5 years. Future construction costs would be difficult or impossible to estimate accurately at this time.”

Therefore, Staff concludes that there is no known demand for water service in the requested transfer area over the next 5 years.

Pima County will be providing wastewater service to the proposed transfer area.

The Transaction

SWC and STWC’s certificated areas are adjacent. By this joint application, the Applicants are seeking Commission authority to transfer approximately 69 acres of SWC’s certificated area to STWC. SWC’s CC&N area is approximately 2,400 acres, while STWC’s CC&N area is approximately 6,400 acres.

According to the Application, the owner of the property is developing a 5,000 acre master planned community, 98% of which falls within the CC&N of STWC, and has consented to this

partial transfer of SWC CC&N. The transfer would result in the entire development being served by one water provider, STWC, rather than by two water providers. The requested transfer area is undeveloped and is located in Section 27 of Township 15 South, Range 16 East. No customers will be impacted by this transfer.

Due to the facts that SWC and STWC are adjacent (shares common borders), have common ownership interests, and STWC purchases water from SWC, Staff believes that consolidating SWC and STWC's certificated areas could result in operational efficiencies, economies of scale and serve the public interest. Therefore, Staff recommends that SWC and STWC be required to file with Docket Control, by December 31, 2007, a report explaining why SWC and STWC should not be consolidated into one.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the SWC's system under the ADEQ Public Water System ("PWS") #10-177. Based on a Compliance Status Report received from ADEQ on July 5, 2006, ADEQ has determined that this system has no deficiencies and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

In a Compliance Status Report dated September 25, 2006, ADEQ reported no deficiencies and determined that STWC's system, PWS #10-127, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance

SWC and STWC are located in Tucson Active Management Area ("AMA") and are currently in compliance with ADWR reporting and conservation rules.

ACC Compliance

According to the Utilities Division Compliance Section, SWC and STWC have no outstanding ACC compliance issues.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g/l}$. The most recent lab analysis provided by SWC indicated that all three of its wells are at or below 1 ppb. Based on these arsenic concentrations, SWC is in compliance with the new arsenic MCL.

STWC reported its arsenic concentrations for the Rocking K Well, the Barn Well, and the York Well at 1 ppb. The Academy Village System's source supply from SWC was also reported

to have an arsenic concentration of 1 ppb. Based on these arsenic concentrations, STWC is in compliance with the new arsenic MCL.

Curtailment Plan Tariff

A Curtailment Plan Tariff (“CPT”) is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

SWC and STWC each have a curtailment tariff on file with the Utilities Division.

Proposed Rates

STWC proposes to provide water service to the transfer area under its authorized rates and charges.

County Franchise

Every Applicant for a CC&N and/or CC&N Transfer is required to submit to the Commission evidence showing that the Applicant has received the required consent, franchise or permit from the proper authority. If the Applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the Applicant operates in an incorporated area of the County, the Applicant has to obtain the franchise from the City/Town.

According to the Applicants’ May 26, 2006 Response to Letter of Insufficiency, “[a]n application has been filed with Pima County to extend the franchise of STWC to cover the proposed transfer area.” Staff recommends that STWC be required to file with Docket Control, as a compliance item in this docket, a copy of Pima County franchise agreement for the transfer area within 365 days of the decision in this matter.

Recommendations

Staff recommends the Commission approve the joint application to transfer a portion of SWC’s CC&N for water service, within portions of Pima County, Arizona, to STWC, subject to compliance with the following conditions:


1. To require STWC to charge its authorized rates and charges in the transfer area.
2. To require STWC to file with Docket Control, as a compliance item in this docket, a copy of Pima Cruz County franchise agreement for the transfer area within 365 days of the decision in this matter.
3. To require SWC and STWC to file with Docket Control, by December 31, 2007, a report explaining why SWC and STWC’s CC&N areas should not be consolidated into one.

Staff further recommends that the Commission's Decision granting the transfer of a portion of SWC's CC&N to STWC be considered null and void, after due process, should STWC fail to meet Condition Nos. 2 and 3 listed above within the time specified.

MEMORANDUM

DATE: January 9, 2007

TO: Blessing Chukwu
Executive Consultant III

FROM: Jian Liu 
Utilities Engineer

RE: Joint Application of Saguaro Water Company (Docket No. W-01790A-06-0177) to transfer a portion of its existing water Certificate of Convenience and Necessity to Spanish Trail Water Company (Docket No. W-01816A-06-0177)

Introduction

Saguaro Water Company ("Saguaro" or "Company") and Spanish Trail Water Company ("Spanish Trail" or "Company") have jointly filed an application to transfer a portion of Saguaro's existing Certificate of Convenience and Necessity ("CC&N") to Spanish Trail. The requested transfer area is approximately 69 acres of undeveloped land. These two water companies which have adjacent service areas are located approximately 17 miles southeast of the City of Tucson in Pima County.

Water Systems

Saguaro

According to Saguaro's 2005 Annual Report, the plant description shows three wells which produce a total of 930 gallons per minute and 500,000 gallon storage capacity which served approximately 700 customers as of December 2005.

Staff concludes that the existing water system will have adequate infrastructure to serve the existing customer base.

Spanish Trail

The Company operates three separate water systems; the Barn System, York System and Academy Village System. These three systems, approximately one mile apart from one another, are described as follows:

1. Barn System: This system has two well sites and a distribution system covering approximately one-half square mile. The Rocking K Well [D(15-

16)17aba] was constructed with a 12-inch casing to a depth of 325 feet. This well is equipped with a 40 horsepower ("Hp") submersible pump having a flow rate of 400 gallons per minute ("GPM"), water is registered by a 4-inch meter. The water is then pumped to a 2,000 gallon pressure tank before entering the distribution system. The Barn Well [D(15-16)17ddd] was constructed in 1994 and has a 12-inch casing to a depth of 400 feet. This well is equipped with a 20-Hp Turbine pump, a 6-inch meter and produces 360 GPM. Water is stored in a 10,000 gallon storage tank and then moves through two 25-Hp booster pumps and into a 3,000 gallon pressure tank before entering the distribution system. The Barn system serves 249 connections.

2. York System: This system consists of one well and a distribution system covering approximately one-sixteenth of a square mile. The York Well [D(15-16)15dab] was constructed with an 8-inch casing to a depth of 233 feet and is equipped with a 5-Hp submersible pump which produces 37 GPM. The York Well is equipped with a 2-inch meter. The well pumps into a 1,000 gallon pressure tank before serving 17 connections.
3. Academy Village System: This system was constructed in 2001 as a consecutive water system to Saguaro Water Company that consists of 13,335 feet of water main and 27 fire hydrants to serve 264 available lots. This system currently serves 121 connections. In 2005 the Spanish Trail Academy Village System purchased 6,036,600 gallons from Saguaro Water Company.

Proposed Plant Facilities

The acreage to be transferred (approximately 69 acres) is currently planned for medium density residential use with approximately 250 units at build-out. The anticipated start date for construction on this parcel will be in 2011. Thus, no new connections or demand will be created for Spanish Trail over the next 5 years. Future construction costs would be difficult or impossible to estimate accurately at this time. (See Company's response to letter of insufficiency dated 9/14/06).

Therefore, Staff concludes that there is no known demand for water service in the requested transfer area over the next 5 years.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance Status

Saguaro

ADEQ regulates the Saguaro system under the ADEQ's Public Water System I.D. # 10-177. Based on a Compliance Status Report received from ADEQ on July 5, 2006, ADEQ

has determined that this system has no deficiencies and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Spanish Trail

In a Compliance Status Report dated September 25, 2006, ADEQ reported no deficiencies and determined that the Company's system, PWS #10-127, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arsenic

Saguaro

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The most recent lab analysis provided by Saguaro indicated that all three of its wells are at or below 1 ppb. Based on these arsenic concentrations, the Company is in compliance with the new arsenic MCL.

Spanish Trail

Spanish Trail reported its arsenic concentrations for the Rocking K Well, Barn Well and York Well all at 1 ppb and the Academy Village System's source supply from Saguaro Water Company at 1 ppb. Based on these arsenic concentrations, the Company is in compliance with the new arsenic MCL.

Arizona Department of Water Resources ("ADWR") Compliance

Compliance Status

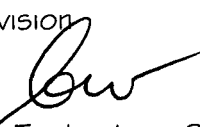
Saguaro and Spanish Trail are both within ADWR's Tucson Active Management Area, and are currently in compliance with ADWR reporting and conservation rules.


Arizona Corporation Commission Compliance

A check with the Utilities Division Compliance Section (email dated 6/16/06) showed no delinquent compliance items for Saguaro or Spanish Trail.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: May 23, 2006

RE: **SAGUARO WATER COMPANY (DOCKET NO. W-01790A-06-0177)**
SPANISH TRAIL WATER COMPANY (DOCKET NO. W-01816A-06-0177)
AMENDED LEGAL DESCRIPTION

The area requested by Saguaro Water Company to be transferred to Spanish Trail Water Company has been plotted using an amended legal description, which has been docketed. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files.

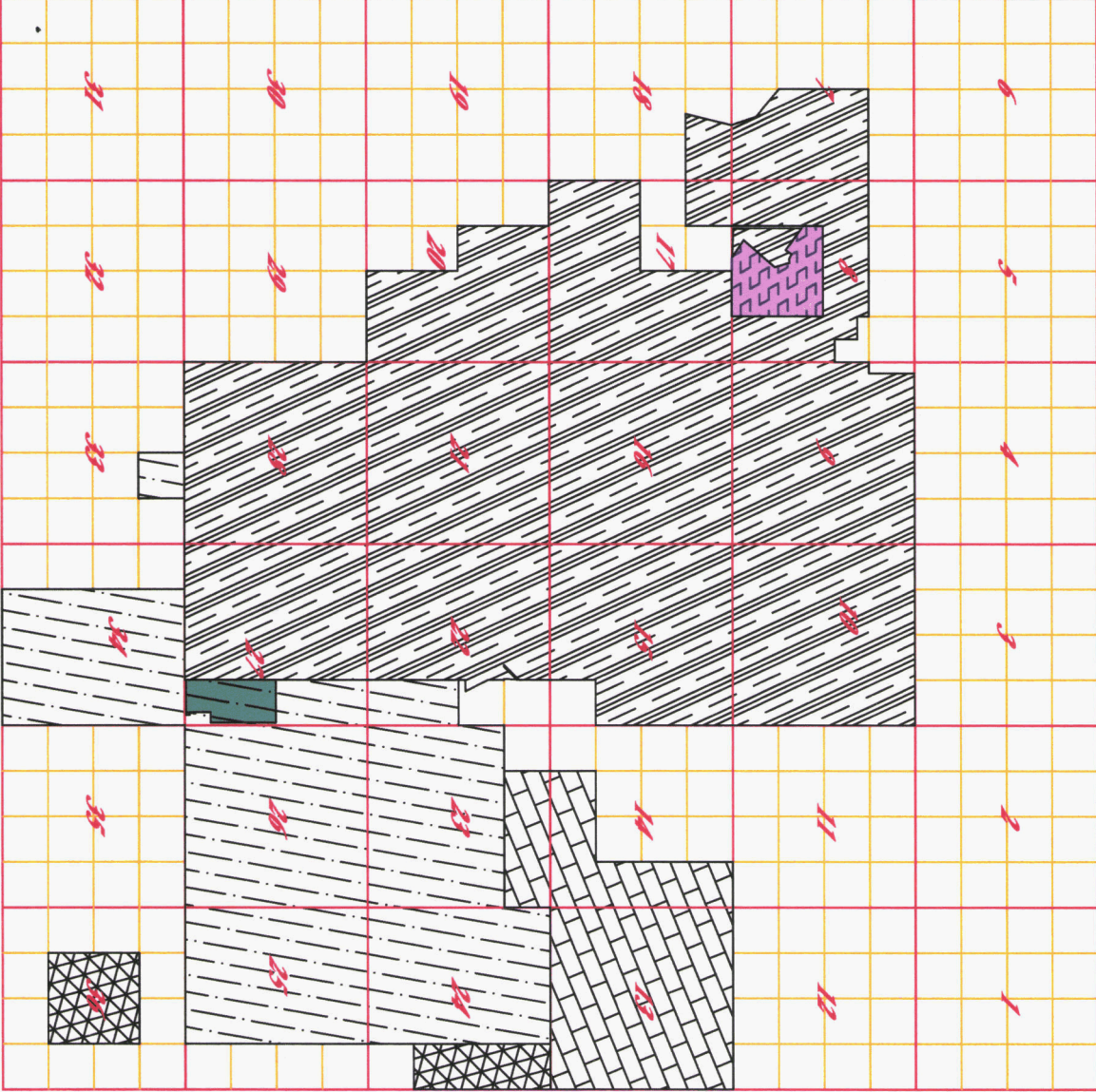
:bsw

Attachments

cc: Mr. Michael McNulty
Ms. Deb Person (Hand Carried)
File

COUNTY: Pima

RANGE 16 East



TOWNSHIP 15 South

W-1619 (2)

Rincon Creek Water Company

W-1723 (2)

Rincon Water Company

W-1790 (2)

Saguaro Water Company

W-1816 (1)

Spanish Trail Water Company

(8)

City of Tucson (Nonjurisdictional)

Saguaro Water Company
Docket No. W-01790A-06-0177
Application to Transfer to
Spanish Trail Water Company
Docket No. W-01816A-06-0177

LEGAL DESCRIPTION

Addition to Spanish Trail Water Company Service Area – Camino Loma Alta

The East one-half of the Southeast one-quarter of Section 27, Township 15 South, Range 16 East, Gila and Salt River Meridian, Pima County, Arizona.

EXCLUDING:

The North 110 feet of the South 155 feet of the West 235 feet of the East 310 feet.

FURTHER EXCLUDING:

The North 600 feet of the South 755 feet of the West 300 feet of the East 375 feet.

FURTHER EXCLUDING:

The East 75 feet.

AND FURTHER EXCLUDING:

The South 45 feet.

Remaining portion of said Section 27 contains 69 Acres, more or less.

AMENDED LEGAL DESCRIPTION
W-01801A-06-0177 AND W-01790A-06-0177